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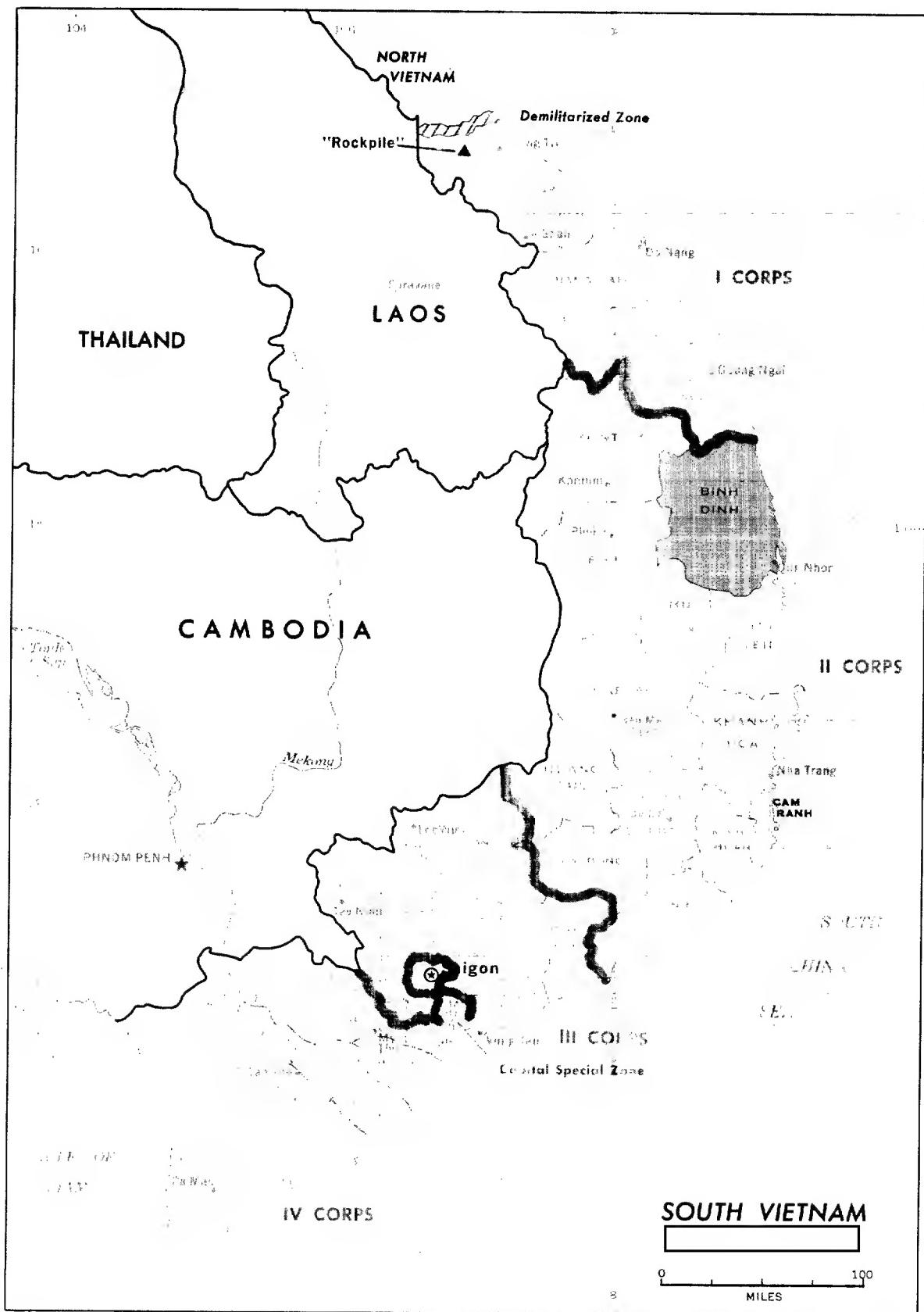
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C South Vietnam: Military activity on 31 December - 1 January continued light and sporadic throughout the country.

Allied forces turned up a number of enemy weapons caches on 30-31 December. Six caches were discovered in the provinces around Saigon. They contained some 300 mortar rounds, 20 heavy rockets, over 60,000 rounds of small-arms ammunition, and about 100 bazooka-type rocket rounds. These discoveries underline the considerable effort the enemy is devoting to a logistics buildup in the central III Corps area.

Other significant Communist caches have been found recently in both I and II corps. US Marines patrolling northwest of the "Rockpile" on 30-31 December uncovered over 1,000 mortar rounds and other ammunition. In Binh Dinh Province, South Korean units on 30 December found two caches with more than 600 rounds of mortar and recoilless rifle ammunition. [] (Map) []

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[Lebanon: The USSR has offered immediate arms aid to Lebanon, now threatened by internal unrest and further Israeli retaliation.

The Soviet chargé d'affaires in Beirut has told President Hilu that if Lebanon presented the Soviet Government with a list of needed items, the USSR would take immediate action in giving Lebanon every military and economic assistance. With the hope of resisting the strong pressures, including a note from Egypt's Nasir urging him to accept Soviet hardware, Hilu has asked the US ambassador for Hawk surface-to-air missiles and other military assistance.

Lebanon's fragile political and religious balance has been in constant danger as a result of the continuing Arab-Israeli conflict. The recent Israeli commando raid against Beirut may possibly upset the balance once more with the threat of civil strife. A demonstration is scheduled for this morning despite a recent government ban. It is ostensibly directed against Israel, but the Lebanese Government, particularly the army, will undoubtedly receive the brunt of the protests in view of its inept defense against the Israeli raid. If a demonstration is mounted, the army may be too ashamed to oppose the mob.

The mood in Lebanon appears to be changing and the Lebanese Government may have to bend with it in order to hold the country together. The ambassador believes that Hilu will have great difficulty in continuing his total commitment to the West without sustained and substantial support from the US.

A commando rocket attack yesterday against the Israeli village of Qiryat Shemona, made from Lebanese soil, caused three civilian deaths and rendered the Lebanese situation more precarious. Earlier, bazooka shells fired into the nearby village of Kfar Yuval had]

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[caused no casualties. Last week Israel had warned Lebanon that stepped-up terrorist attacks would lead Israel to consider taking up "defensive positions" north of the present Israel-Lebanon border.]

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[The present mood of resentment in Israel, following condemnation in the Security Council, may lead it into a quick and powerful retaliation to new attacks from Lebanese soil. [Map on next page]]

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[C] Israel - Arab States: The rate of border incidents seems to be rising despite Israel's retaliatory tactics.

The Israelis claim three attacks were made from Jordanian soil on Israeli settlements at Tsofar and Ein Yahav south of the Dead Sea on 29 December; another mortar attack occurred on 31 December at Timna just north of Elat. On the Lebanese border six bazooka shells hit one Israeli village, and rockets from a Soviet-made Katyusha launcher are claimed to have caused three deaths at neighboring Qiryat Shemona on 31 December. The Lebanese have claimed that Israeli aircraft have overflowed southern Lebanon. The incidents have made Lebanon fearful of another Israeli retaliatory strike, [redacted]

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Jordanian spokesmen claim that the Israelis shelled four Jordanian settlements in the Allenby Bridge area on 29 December and that on 31 December Israeli half-tracks and helicopters attacked a Jordanian police vehicle in the Gharandal area, midway between Elat and the Dead Sea. Three police were killed and two wounded. A Jordanian announcement yesterday that one soldier and two civilians were killed and another soldier was missing in the same area indicates that the skirmishing is continuing.

The rising rate of armed incidents, particularly by Israeli aircraft, is likely to result in Jordanian pressure for increased US military assistance or even a renewal of interest in an earlier Soviet arms offer.

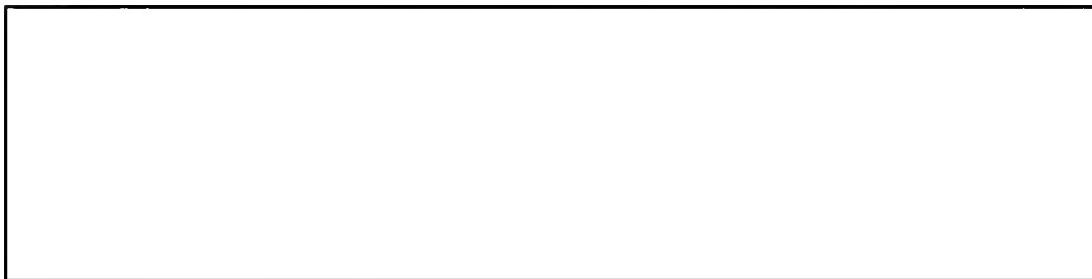
(Map)]

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West Germany: Year-end interviews have highlighted differences in the views of Chancellor Kiesinger and Foreign Minister Brandt on the prospects for negotiations with Moscow.

Brandt said that talks "definitely" will take place on the proposed agreement on non-use of force and other issues. Kiesinger was more reserved. He stated that if Moscow were less insistent on West Germany recognizing the "realities" (read East Germany), cooperation with the Soviet Union in some areas might become possible. Kiesinger had no "excessive hopes" on this score, however.

So far the most promising area of agreement between Bonn and Moscow is in civil air cooperation. A new round of talks on this subject is scheduled for mid-January.



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Nigeria: Federal authorities are becoming increasingly suspicious of US intentions in Nigeria, and growing anti-US sentiment is being expressed in sharp press attacks.

Federal leader Gowon on 30 December complained to the US ambassador in Lagos about several alleged pro-Biafran moves by the US, including the recent provision of eight C-97 aircraft to fly relief supplies to Biafra. He stressed that these actions could have "very serious consequences" for US-Nigerian relations.

Anti-US sentiment is on the rise throughout Nigeria because of a widespread belief that the US is moving to a position supporting Biafra. The Nigerian radio has attacked the US over the provision of the relief aircraft, and a small "anti-imperialist" demonstration held on 28 December near the US, French, and West German embassies in Lagos has been given wide play in the press. It seems likely that more anti-US demonstrations will occur.

Gowon probably wants continued good relations with the US, but he will almost certainly face increased pressure both from those genuinely fearful of US support for Biafra and from those looking for a scapegoat for the federal inability to win the civil war. [redacted]

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Indonesia: For the first time in years, basic commodity prices declined in Indonesia during the December holidays, and prospects are good for continued price stability this month.

The period from early December through March is normally marked by a rice shortage that leads to rising prices not only of rice but of commodities generally. A good rice harvest this year and timely imports are, however, expected to meet domestic requirements during the next three months.

Present price levels reflect general progress toward stability. The current rate of inflation in Indonesia is two percent a month, which, although far from satisfactory, is a substantial improvement over the runaway inflation of 1967 and earlier years.

Continued stability would improve prospects for the five-year economic development plan that the government intends to launch in April. [redacted]

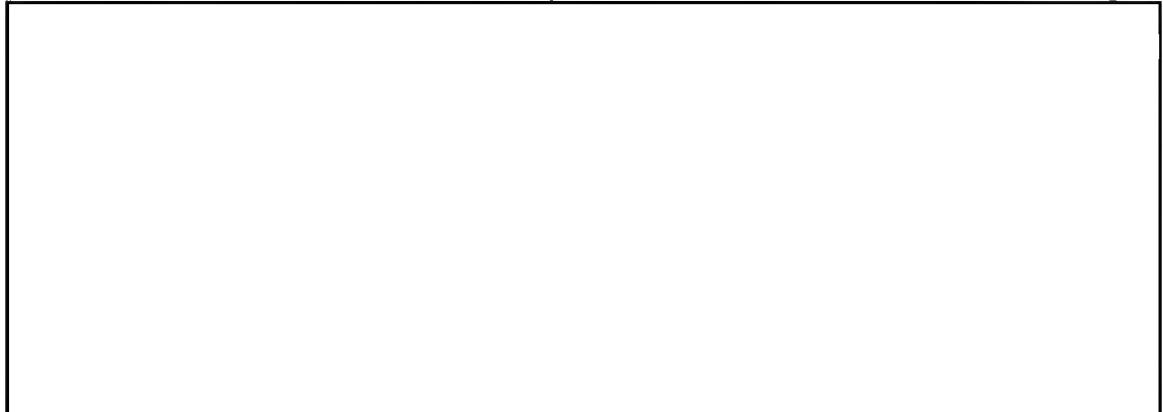
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USSR - Middle East: A task force of five Soviet ships from the Indian Ocean is scheduled to arrive in Aden, Southern Yemen, today for a five-day visit. Three of the ships are expected to proceed to Massawa, Ethiopia, on 8 January for Ethiopian navy day celebrations. Another group of four Soviet ships is scheduled to make an unofficial visit to the Iranian port of Bandar Abbas in early February and may stop at Aden on the way.

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USSR-Yugoslavia: The two countries have signed a protocol providing for an increase in trade this year of almost 30 percent above the level planned for 1968. Most of the increase is expected to result from exchange agreements between individual economic organizations, and will thus fall outside the regular long-term bilateral trade agreement for 1966-70. The lists of goods to be exchanged do not indicate where the projected increases will originate. The planned trade level, like those in past agreements, is probably overly optimistic, particularly because of the continued unwillingness of Yugoslav importers to purchase poor-quality and high-priced Soviet goods.

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Czechoslovakia: Personnel assignments in the new Czechoslovak federal government were announced yesterday, but there was no indication whether National Assembly President Josef Smrkovsky would remain in office. Smrkovsky's status, which has become a cause celebre and has generated considerable friction between the newly created semiautonomous Czech and Slovak national governments, will probably be spelled out when the new Federal Assembly is formed in mid-January. Shifts in the new federal government reflect the emergence of a few young and competent officials, but contain no surprises.

* * * *

Cuba: The tenth anniversary of Fidel Castro's accession to power will be celebrated today with a mass rally in Havana's Revolutionary Square. Despite an earlier promise that there would be a large military parade, no display of heavy military hardware is expected. Castro will use the occasion to make a major address, but he has not given a hint of what the speech will contain.

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